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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 5, Volume 8

March 22, 2013

Canada

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ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

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National Overview

Canadian Retail Gasoline Prices Increased 0.3 Cent per Litre from Last Week

For the week ending March 19, 2013, average Canadian retail gasoline prices increased from the previous week by less than 1 cent per litre to $1.31 per litre. After a 1 cent per litre decline last week, retail gasoline prices moved upward, reflecting higher wholesale gasoline and crude oil prices. However, average retail pump prices are nearly 3 cents per litre lower than during the same period last year.

Diesel fuel prices decreased by less than 1 cent per litre to $1.32 per litre from the previous week. Prices are 2 cents per litre higher compared to the same period last year. Furnace oil prices are also down by less than 1 cent per litre compared to last week, and are 2 cents per litre higher than at this time last year.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

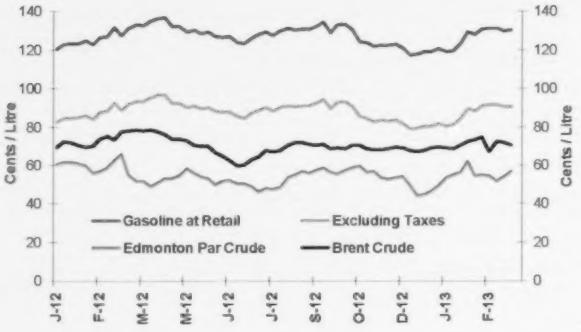
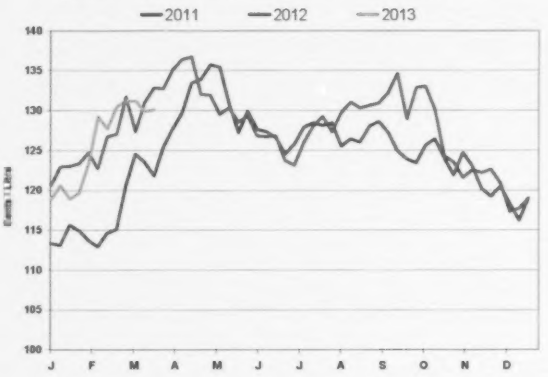


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Quebec Fuel Tax Changes**: On April 1, 2013, the Quebec fuel tax rate of $0.182 per litre of gasoline increases to $0.192, while the rate for non-coloured fuel oil increases from $0.192 per litre of to $0.202 per litre. (Source: Revenu Québec)
- **Changes to PEI's Harmonized Sales Tax**: On April 1, 2013, PEI will follow the provinces of Ontario, Nova Scotia, New Brunswick, and Newfoundland and Labrador in replacing its PST with the HST. The combined HST rate in PEI will be 14%, of which 5% will represent the federal part and 9% the provincial part. There will be no change in the provincial tax on heating oil. (Source: CRA)
- **Heating and Cooling No Longer Majority of U.S. Home Energy Use**: For decades, space heating and cooling (space conditioning) accounted for more than half of all residential energy consumption. The most recent estimates show that 48% of energy consumption in U.S. homes in 2009 was for heating and cooling, down from 58% in 1993. Factors underpinning this trend are increased adoption of more efficient equipment, better insulation, more efficient windows, and population shifts to warmer climates. While energy used for space conditioning has declined, energy consumption for appliances and electronics continues to rise. Non-weather related energy use for appliances, electronics, water heating, and lighting now accounts for 52% of total consumption, up from 42% in 1993. (Source: EIA, http://www.eia.gov/todayinenergy/detail.cfm?id=10271)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-03-19	Previous Week	Last Year
Gasoline	130.1	+0.3	-2.7
Diesel	132.2	-0.3	+2.2
Furnace Oil	123.7	-0.4	+2.4

Source: NRCan

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Retail Gasoline Overview

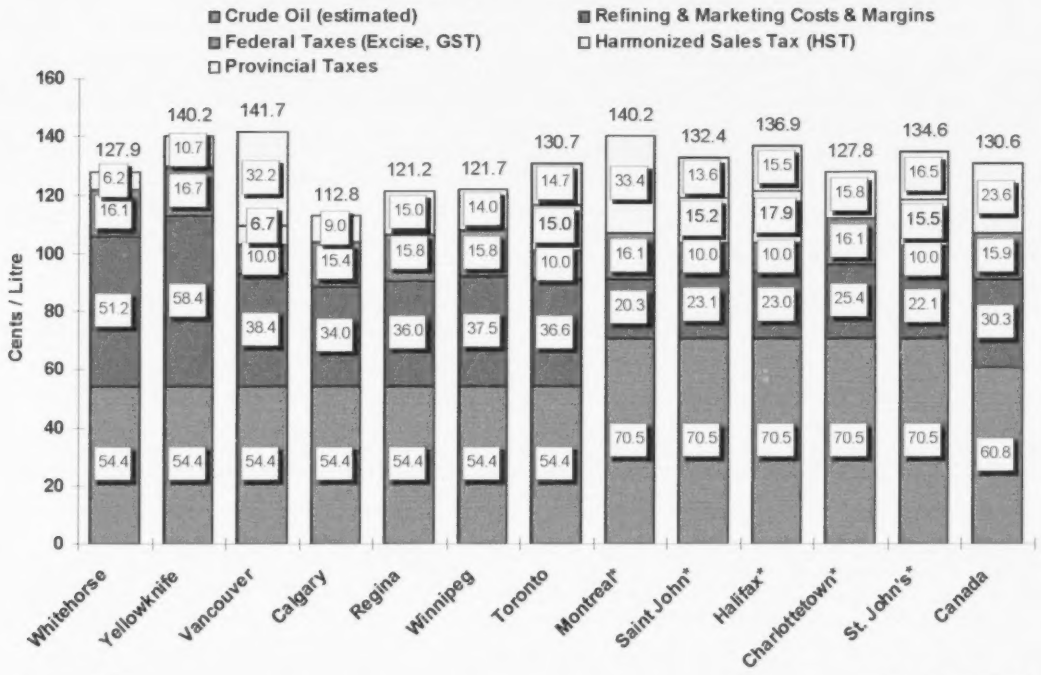
The **four-week average** regular gasoline pump price in selected cities across Canada was $1.31 per litre for the period ending **March 19, 2013**. This is nearly the same level as last year at the same time.

The **four-week average** crude oil price component of gasoline registered at 61 cents per litre, down by 0.4 cent per litre from two weeks ago. Compared to the same period in 2012, the crude oil price component of gasoline is 5 cents per litre lower.

Ranging from $1.13 per litre to $1.42 per litre, retail gasoline prices in most Western centres increased, on average, by 2.6 cents per litre compared to two weeks ago. Prices in Eastern centres decreased on average by 1 cent per litre, and ranged from $1.28 per litre to $1.40 per litre.

At the national level, refining and marketing costs and margins increased by 1 cent per litre from two weeks ago, and are nearly 5 cents per litre higher than last year at this time.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (February 26 to March 19, 2013)



Source: NRCan

** Regulated Markets*

Inflation Up 0.5% in the 12 Months to January 2013

Statistics Canada's Consumer Price Index (CPI), released February 22, 2013, indicates that the CPI rose 0.5% in the 12 months to January, following a 0.8% gain in December. The main factor in the smaller increase in the CPI was gasoline prices, which fell 1.8% year-over-year in January after rising 1.0% in December. Provincially, the largest year-over-year decreases in gasoline prices occurred in Saskatchewan (-8.8%) and Alberta (-7.3%), while Prince Edward Island (+1.5%) was the lone province to record an increase.

Prices for transportation declined 0.5% in the 12 months to January, after increasing 0.5% in December. In addition to a year-over-year price decrease for gasoline, prices for the purchase of passenger vehicles fell 0.8%. Consumer prices rose in all provinces in the 12 months to January, except in Alberta.

Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/130222/dq130222a-eng.htm

Wholesale Gasoline Prices

Wholesale gasoline prices rose in most selected centres for the **week of March 14, 2013**, compared to the previous week. Overall, price changes ranged from an increase of 1.5 cent per litre to a decrease of 1.5 cent per litre.

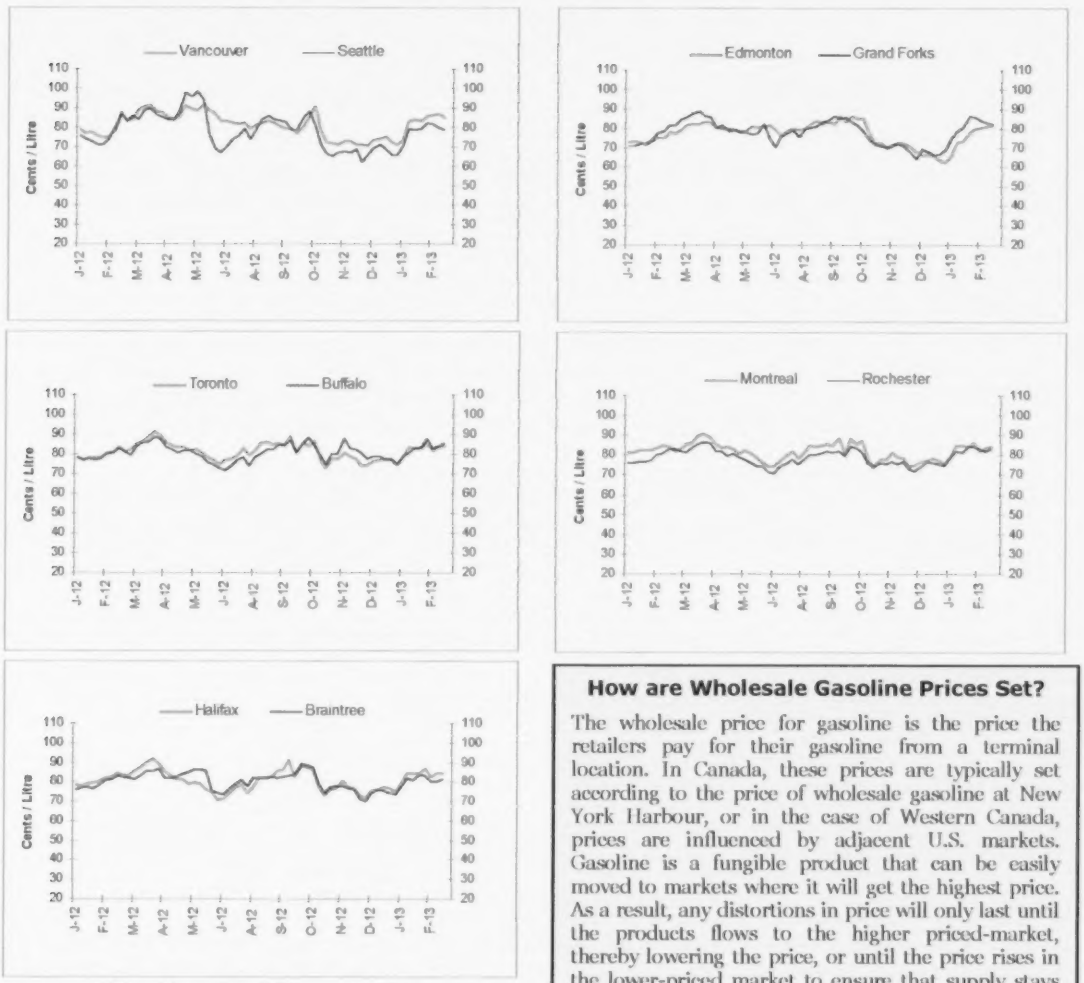
Wholesale gasoline prices in Eastern markets in both Canada and the United States have registered increases ranging from less than 1 to 1.5 cent per litre, compared to the previous week, ending the period in the 82 to 85 cent-per-litre range.

In comparison, Western wholesale gasoline price changes ranged from a decline of 1.5 cent per litre to an increase of nearly 1 cent per litre, ending in the range of 79 to 85 cents per litre.

In the last four weeks, wholesale prices changes in both Canadian and American selected centres ranged from a decline of 4 cents per litre to an increase of 4 cents per litre.

Overall, prices changes in most selected centres ranged from a decline of almost 6 cents per litre to an increase of less than 2 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 14, 2013
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

How are Wholesale Gasoline Prices Set?

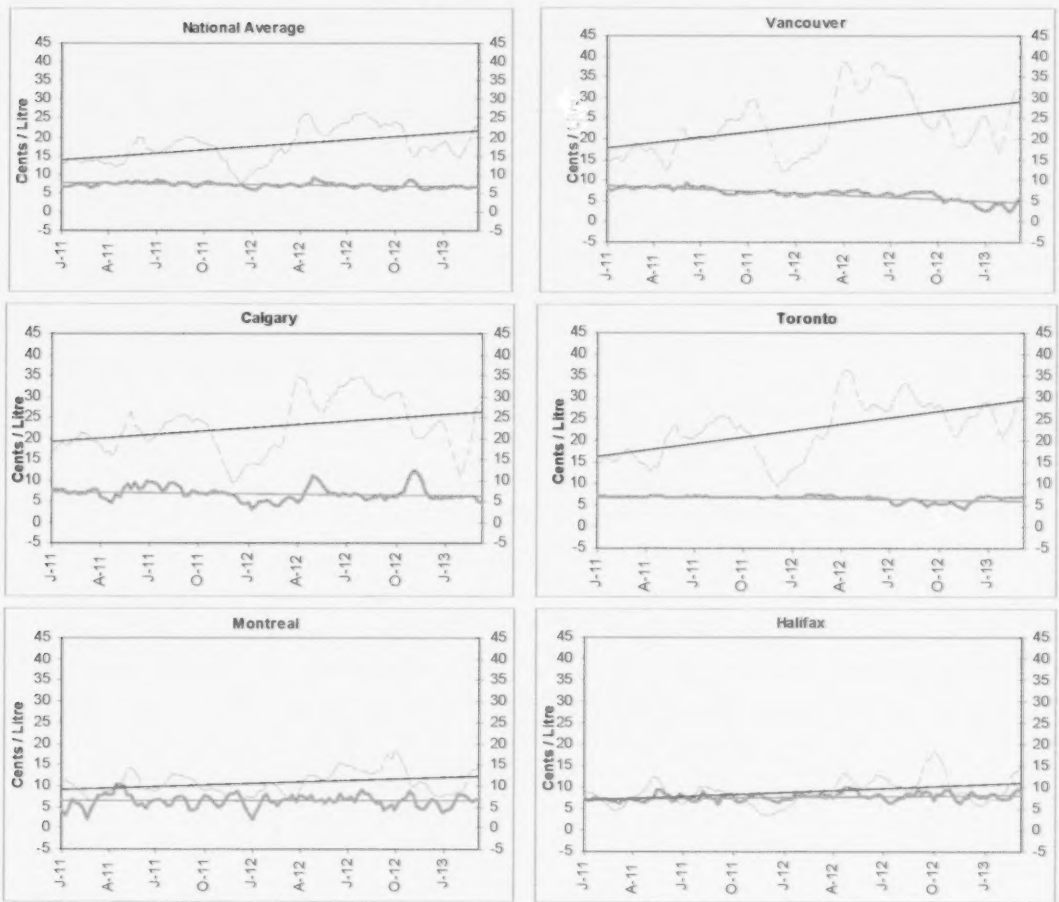
The wholesale price for gasoline is the price the retailers pay for their gasoline from a terminal location. In Canada, these prices are typically set according to the price of wholesale gasoline at New York Harbour, or in the case of Western Canada, prices are influenced by adjacent U.S. markets. Gasoline is a fungible product that can be easily moved to markets where it will get the highest price. As a result, any distortions in price will only last until the products flows to the higher priced-market, thereby lowering the price, or until the price rises in the lower-priced market to ensure that supply stays

Gasoline Refining and Marketing Margins

Gasoline refining margins have shown some gains in the last four weeks and ended the week of March 19, 2013, at 23 cents per litre. This reflects a renewed demand for gasoline and an adequate supply in the North American distribution system. Conversely, strong U.S. gasoline and crude oil inventories create a downward pressure on prices which, in turn, moderate refining margins.

Marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, the trend line indicates that marketing margins remain around 7 cents per litre. Marketing margins in the following five centres ranged from a low of 5 cents per litre to a high of 9 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending March 19, 2013
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Brent Crude Oil Price Down while North American Prices Firm Up

For the week ending March 15, 2013, prices for the three marker crudes averaged between $568/m^3 and $706/m^3, (US$88 to US$110 per barrel). While both Edmonton Par and WTI prices rose by $32/m^3 and $9/m^3 (US$5 to US$2 per barrel), respectively, from the previous week, Brent declined by $12/m^3 (US$1 per barrel)—a seven week low.

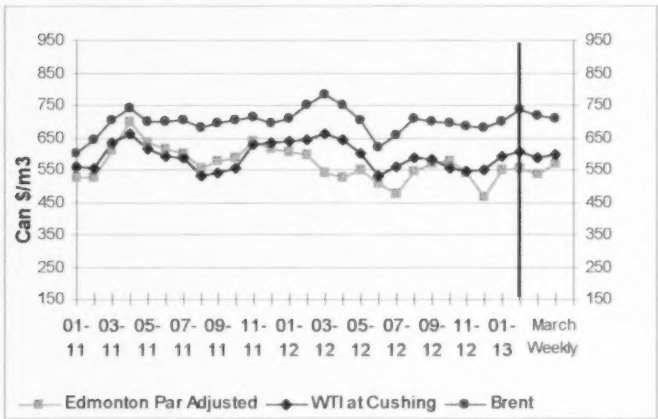
For the week ending March 15, 2013, the price differential between Edmonton Par and WTI closed significantly to $30/m^3 (US$4.64 per barrel).

The price gap between Brent and WTI stood at $109/m^3 (US$17 per barrel).

Brent crude oil prices moderated on reports of lower demand growth in China and the United States while a strengthening U.S. dollar added pressure on prices.

According to the U.S. EIA, the gap between Brent and WTI will average about $16 this year and narrow to $9 in 2014 as new pipeline capacity lowers the cost of moving crude to the Gulf Coast refiners from the central U.S.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-03-15		Change From:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	567.91	88.09	+32.40	+5.39	+51.00	+5.24
WTI	597.81	92.73	+8.63	+1.74	-64.38	-13.40
Brent	706.38	109.57	-12.09	-1.38	-75.39	-15.73

Source: NRCan

U.S. Short-Term Energy Outlook

The weekly U.S. average regular gasoline retail price fell in early March for the first time since mid-December. The March 11 average was $3.71 per gallon, down $0.07 per gallon from February 25. The Energy Information Administration (EIA) expects that lower crude oil prices will result in monthly average regular gasoline prices staying near the February average of $3.67 per gallon over the next few months, with the annual average regular gasoline retail price declining from $3.63 per gallon in 2012 to $3.55 per gallon in 2013 and $3.38 per gallon in 2014. Energy price forecasts are highly uncertain and the current values of futures and options contracts suggest that prices could differ significantly from this forecast.

EIA expects that the Brent crude oil spot price, which averaged $112 per barrel in 2012 and rose to $119 per barrel in early February 2013, will average $108 per barrel in 2013 and $101 per barrel in 2014. The projected discount of West Texas Intermediate (WTI) crude oil to Brent, which increased to a monthly average of more than $20 per barrel in February 2013, will average $16 per barrel in 2013 and $9 per barrel in 2014, as planned new pipeline capacity lowers the cost of moving mid-continent crude oil to the Gulf Coast refining centers.

Source: U.S. Energy Administration Information, http://www.eia.gov/forecasts/steo/index.c m